



**State Controller  
Kathleen Connell**



**California State Controller's Review of  
the Proposed Harbor Area  
Special Reorganization  
Comprehensive Fiscal Analysis**



**KATHLEEN CONNELL**  
**Controller of the State of California**

April 1, 2002

Mr. Larry J. Calemine  
Executive Officer  
Local Agency Formation Commission  
for Los Angeles County  
700 North Central Avenue, Suite 350  
Glendale, CA 91203

Dear Mr. Calemine:

The State Controller's Office has completed a review of questions raised by the City of Los Angeles regarding the Comprehensive Fiscal Analysis prepared by your Commission for the proposed Special Reorganization of the Harbor Area. A report of the review and findings is enclosed.

My audit staff is available to consult with you on the details of our review and findings, at your request.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathleen Connell", is written over a horizontal line.

KATHLEEN CONNELL  
State Controller

**CALIFORNIA STATE CONTROLLER'S REVIEW OF THE  
PROPOSED HARBOR AREA  
SPECIAL REORGANIZATION  
COMPREHENSIVE FISCAL ANALYSIS**



**KATHLEEN CONNELL**  
California State Controller

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## **EXECUTIVE SUMMARY**

### **Background**

A proposal was presented to the Los Angeles County Local Agency Formation Commission (LAFCO) for the special reorganization of the Harbor area of the City of Los Angeles (City). A special reorganization includes the detachment of territory from a city or city and county and the incorporation of that entire detached territory as a city.

The executive officer of LAFCO prepared a comprehensive fiscal analysis (CFA) for the proposed incorporation in accordance with the requirements of *Government Code* Section 56800. The CFA was published on January 9, 2002. Subsequently, on February 21, 2002, LAFCO released a supplemental report to the CFA.

*Government Code* Section 56801 allows any interested party to ask LAFCO to request that the State Controller's Office review specified elements of the CFA with regard to the accuracy and reliability of the information, methodologies, and documentation used in the analysis. Within 45 days of receiving a request, the Controller is required to issue a report of findings to the executive officer of LAFCO.

On February 11, 2002, the City submitted a request to LAFCO that the State Controller's Office review two issues. LAFCO forwarded this request to the State Controller's Office, which received it on February 14, 2002. The two issues are:

- 1– Does the CFA provide an adequate analysis upon which to determine fiscal viability?
- 2– Does the CFA provide an adequate analysis of the costs of Police and Fire Services in the Harbor area and how those services will be provided?

To the extent necessary, the analysis of these issues incorporates the information included in the supplemental report to the CFA.

## **Findings**

- 1– The State Controller’s Office concludes that the CFA correctly determined that the proposed new Harbor city will not be fiscally viable without making significant reductions in expenditures and services and notes that the proposed new Harbor city’s ability to do so is “highly uncertain.”
- 2– The State Controller’s Office concludes that revenues listed in the CFA are significantly overstated because of changes made in the supplemental report to the CFA. The overstatement will reduce property tax revenues alone to the new City by up to 67%. This could affect the new Harbor city’s potential to maintain current fire and protection services. The State Lands Commission is scheduled on April 9, 2002, to consider a decision on political boundaries and tax jurisdictions proposed for the new Harbor city, which could reduce this impact.

In addition, the State Controller’s Office concludes that the methodology used to determine costs of fire protection is accurate and reliable.

## **REVIEW FINDINGS**

**CITY ISSUE 1** The City raised the following issue in its request to LAFCO:

**“Does the CFA provide an adequate analysis upon which to determine fiscal viability?”**

The City faults the CFA for not providing a specific plan for bridging the financial gap between revenues and expenditures. Specifically, the City states:

The CFA fails to set forth a specific plan to close the financial gap identified between expenditures and revenues, but provides only general hypothetical theories that have not been studied in detail.

The City identified three concerns to support its position that the CFA did not provide adequate analysis upon which to determine fiscal viability. These concerns are:

**City Concern 1:** The proposed Harbor city would not be fiscally viable.

**City Concern 2:** The methodology used to develop expenditures for the proposed Harbor city does not address the unique characteristics of the Port of Los Angeles.

**City Concern 3:** The CFA does not contain a traditional cash-flow analysis.

**ANALYSIS OF UNDERLYING CONCERNS CITED  
BY THE CITY AS ITS BASIS FOR CITY ISSUE 1**

**City Concern 1**

The City states that the majority of the CFA demonstrates that the proposed Harbor city would not be fiscally viable if it relied on the City of Los Angeles to deliver the current level of services. The City claims that the CFA has not addressed a financial plan by which the new Harbor city will achieve financial viability but notes that the CFA suggests various possibilities, such as a reduction in the level of service and deferring or avoiding some costs. Specifically, the City states:

The bulk of the CFA demonstrates that the proposed Harbor city as constructed in the 'final proposal' would not be fiscally viable if it relied on the City of Los Angeles to deliver the current level of services. The current level of such expenditures greatly exceeds revenues generated in the area. The CFA at page 8 shows a \$35.9 million gap between revenues and expenses. To achieve a finding of fiscal viability, the CFA assumes that sufficient cost reductions could be achieved. Yet, no new plan of government is described in the CFA that has been costed out to this result. Indeed, the CFA recounts that in a supplemental proposal supplied by the applicant the estimated operating costs had been 'likely underestimated.' CFA at 40 & Appendix I at 15-19. Instead, the CFA compares the proposed new Harbor city with other cities with a comparable population. The CFA finds:

At least based on its ability to generate general fund revenue, a new Harbor city could potentially be fiscally viable—that is, it could afford to provide key city services to keep its general fund expenditures at a level comparable to other cities in this analysis.... To do this, however, a new Harbor city would have to spend less in general funds per capita than is currently spent by the City of Los Angeles. Appendix I-24.

Clearly, no particular design of government for the proposed Harbor city is envisioned, and the CFA has not squarely addressed the financial plan by which the new Harbor city will achieve financial viability. The CFA suggests various hypothetical possibilities such as a reduction in the level of service and deferring or avoiding payment for some costs. The CFA says that the new Harbor city could achieve such financial viability if '...Los Angeles does not recover the estimated fully allocated costs of providing service to the Harbor area, or the City and new



city agree that the City will be reimbursed when funds are available.’ (See CFA at p.8) Neither alternative is realistic given the current fiscal difficulties facing Los Angeles, as well of most other national, state and local governmental entities at this time (see *Third Financial Status Report and Budget Reduction Recommendations*, January 8, 2002; CAO File No. 0116-00001-0000).

### **State Controller’s Office Analysis and Response to City**

**Concern 1:** The State Controller’s Office concludes that the CFA analysis regarding fiscal viability of the proposed Harbor city is based on an appropriate methodology and correctly concludes that the proposed Harbor city is not fiscally viable. In addition, the State Controller’s Office concludes that the City is correct in stating that the CFA fails to provide a specific financial plan to address this issue, but such a plan is not required under *Government Code* Section 56800.

The CFA does not state that sufficient cost reductions can be made to make the proposed city viable, contrary to the City’s contention. On page 36 under the heading of “Financial Assessment of New City,” the CFA states:

It is estimated that the proposed Harbor City would not generate revenues in excess of the current cost of providing services, and would need to significantly reduce expenditures on municipal services in order to generate a reasonable reserve. However, the ability of the new city to accomplish such a reduction in expenditures, or the resulting impact on the cost or adequacy of service is highly uncertain. (emphasis added)

While the CFA mentions potential options for service savings, it clearly states that actual cost cuts and savings cannot be determined at this time.

Finally, while the City is correct in stating that the CFA does not include a specific financial plan by which the new Harbor city will achieve financial viability, such a plan is not required to be included under *Government Code* Section 56800.

### **City Concern 2**

The City states that a comparison of expenditures of the Harbor area and other government agencies fails to analyze the differences

between the service needs of the Harbor area and the other government agencies. The City asserts that comparing the Harbor area to other similar-sized cities is simplistic because the geography and physical barriers are vastly different and the other cities are not home to one of the largest cargo and passenger shipping ports in the world. The City contends that these are important factors when designing a network of fire protection to meet desired emergency response times. The City states:

The CFA's comparison with expenditures of other governmental agencies fails to analyze differences between service needs in these cities and those of the Harbor area. It appears that many potential differences that were not considered or properly assessed. For example, there is an implicit assumption that employees in the proposed Harbor city will work at markedly lower salaries or take on markedly greater workloads. (See Appendix I-14, I-15) If so, are these realistic assumptions? As another example, the CFA asserts that the new Harbor city could possibly narrow its revenue/expense gap by reducing fire protection and emergency medical service costs. It reaches this conclusion based on its finding that '...expenditures (for fire service) in the Harbor Area were higher than in any other city, including Los Angeles as a whole.' (see Appendix I-24, first bullet) We believe that comparing the San Pedro/Wilmington area to cities like Torrance, Irvine, Carson and Pomona is simplistic because those other cities are not home to one of largest cargo and passenger shipping ports in the world. None of those other cities have the same dollar value of cargo to be protected. Neither do those other cities have the same geography and physical barriers (islands, bridges) as San Pedro/Wilmington. Such factors are important considerations when designing a network of fire protection to meet desired emergency response times.

**State Controller's Office Analysis and Response to City**

**Concern 2:** The State Controller's Office concludes that the methodology used in the CFA is accurate and reliable.

Consideration of unique features such as islands, bridges, and the port are not required to be included in the CFA methodology.

*Government Code* Section 56800 only requires that comparisons be made to cities that have similar populations and geographic size.

The cities used in the CFA for comparison purposes (Torrance,

Pomona, Garden Grove, Irvine, and Carson) meet the requisite criteria.

Also, the City's conclusion regarding the information contained in Appendix I-14 and I-15 appears to be incorrect. The assumptions cited were those prepared by the applicant for the proposed Harbor city. The CFA's conclusions and evaluation of the assumptions clearly indicate that they should not be relied upon and were not relied upon to develop the CFA. Specifically, the CFA report states:

The applicant's analysis does not provide a written description of the assumptions used to develop the budget projections. However, the tables included in the analysis contain notes and some level of detail of the computations used. Based on the tables and notes provided, it appears the projections rely on the following key assumptions: ...Upon evaluation, several of the assumptions do not appear realistic.

### **City Concern 3**

The City states that the CFA does not seem to have taken into consideration various cash flow and liquidity issues discussed in a report prepared for the San Fernando Valley area secession proposal. The City believes that the principles and cash-flow issues raised in that report are the same for the Harbor area. These issues concern the lag in the receipt of revenues and the need for substantial first-year financing. The City states:

Notwithstanding the formidable revenue/expense problem discussed above, the CFA does not seem to have taken into consideration various cash flow and liquidity issues discussed in the R.J. Rudden Associates Report. While the Rudden report looked at the San Fernando Valley area secession proposal, the principles and cash-flow issues raised in Rudden are the same for the Harbor secession area. These issues concern the lag in the receipt of revenues and the need for substantial first-year financing. (See Rudden, pp 1 & 2, and CAO Report at 1.)

### **State Controller's Office Analysis and Response to City**

**Concern 3:** The State Controller's Office concludes that the *Government Code* does not require the CFA to contain a cash flow analysis. Therefore, the Rudden report, which was commissioned by the City, is not relevant.

In addition, while the CFA does not include a traditional cash flow analysis that matches monthly cash revenue receipts with monthly cash expenditure payments, the State Controller's Office has determined that it does provide information that would be substantially the same as if a traditional cash flow analysis had been performed for the new Harbor city. In addition, it includes three assumptions that ensure that cash flow problems of the proposed new Harbor city do not adversely affect the City.

First, the CFA assumes that the City would "... collect all Harbor revenues that are not paid directly to the new city, and would retain all amounts for payment of City-provided contractual services and a mitigation payment." Second, it assumes that any revenues paid directly to the new Harbor city would be immediately paid to the City to ensure that the City can meet its ongoing operating expenses. Finally, the CFA notes that some revenues are received monthly, others quarterly, and some, such as property taxes, sporadically, and concludes that receipt of property tax revenues may not match the expenditure requirements of the City.

#### **State Controller's Office Conclusion Regarding City ISSUE 1:**

**The State Controller's Office concludes that the CFA correctly determined that the proposed new Harbor city will not be fiscally viable without making significant reductions in expenditures and services and notes that the proposed new Harbor city's ability to do so is "highly uncertain."**

**CITY ISSUE 2**    The City raised the following issue in its request to LAFCO:

**"Does the CFA provide an adequate analysis of the costs of Police and Fire Services in the Harbor area and how those services will be provided?"**

The City's purpose for making the request was "to ensure a complete and accurate analysis related to the service levels of police and fire services that will be provided, and the impacts of reducing those services."

The City identified three concerns to support its position that the CFA did not provide adequate analysis of the costs and provision of police and fire services in the Harbor area. These concerns are:

**City Concern 1:** The CFA does not correctly determine the costs of fire protection to the new Harbor city.

**City Concern 2:** The CFA fails to correctly determine whether revenues will be sufficient to meet the fire protection needs of the new Harbor city, including the Port of Los Angeles.

**City Concern 3:** The CFA fails to deliver a plan on providing police and fire services to the Port of Los Angeles.

### **ANALYSIS OF UNDERLYING CONCERNS CITED BY THE CITY AS ITS BASIS FOR CITY ISSUE 2**

#### **City Concern 1**

The City contends that the CFA assumes the new Harbor city can reduce fire and emergency medical service costs simply because the expenditures for fire service in the Harbor area are higher than for other surveyed cities, including the City of Los Angeles as a whole. The City states that the fire and police services of the Harbor and Wilmington areas were developed to meet the unique needs of those areas. The City further believes that a comparison of per capita budgets, without considering other relevant factors, is an overly simplistic analysis. The City states:

The Harbor CFA makes some very tenuous assumptions about the ability of a new Harbor city to possibly reduce fire protection and emergency medical service costs. The CFA reaches this conclusion based on its finding that '...expenditures (for fire service) in the Harbor Area were higher than in any other city, including Los Angeles as a whole.' (Appendix I-24, first bullet) The fire and police services of the Harbor and Wilmington areas have been developed over many years to meet the unique needs of those areas. A simplistic comparison of 'per capita' budgets from Irvine and Torrance, without considering the geography of San Pedro and Wilmington, the demand for services, the incident call loads, fire exposure factors and other

elements appears to be an overly simplistic analysis. An objective study of Port area fire protection found that:

The components which form the fire protection 'system' for the port are well thought out, planned for and adequately resourced. This was found to be especially true for the location and placement of fire protection mobile apparatus and fireboat vessels. *(An Independent Study and Assessment of Fire Protection Services at the Port of Los Angeles, August 2001)*

### **State Controller's Office Analysis and Response to City**

**Concern 1:** The State Controller's Office concludes that the methodology used in the CFA to allocate support services to the new Harbor area is reliable and accurate. This conclusion is based on the assumption that the City had, in the past, properly staffed direct police and fire personnel to the Harbor area according to the unique needs of the Wilmington area and the Port of Los Angeles. The CFA determined police and fire costs for the proposed new Harbor city based upon current staffing levels and patterns.

The CFA derived fire and police staffing for the proposed new Harbor city from information provided by the City of Los Angeles by evaluating two components: direct services and support services. Direct services represent the line staffing functions located throughout the City. Support services consist of all other staffing and are deemed to exist in order to support the direct services.

The CFA methodology for direct services simply identified the number of police and fire personnel physically located in the Harbor area. The CFA methodology allocated support services to the new Harbor city based on the proportion of direct personnel physically located in the Harbor area to all direct personnel.

### **City Concern 2**

The City's concern appears to be related to a hypothetical situation in which the new Harbor city is forced to reduce costs in the future to balance the budget and achieve fiscal viability. However, the Port of Los Angeles provides its own police security and pays \$13.2 million per year for fire services to the City. Any new Harbor city cuts in police should not impact the Port of Los Angeles, and cuts in fire service should be matched by offsetting payment cuts, providing no net savings or incentive to reduce service.

The City's request challenges the fiscal viability of the proposed new Harbor city in numerous aspects. Special mention is also made of the unique nature of the Port of Los Angeles and its requirements. The previous concern addressed the expenditure aspects of the Port, and this concern addresses the revenue implications. The City's request summarized the issue by stating the CFA failed to analyze whether the financial resources of the new Harbor city will be adequate to meet the fire protection needs of the Harbor area, including the Port of Los Angeles. The City states:

The CFA fails to analyze whether the financial resources of the new, smaller city will be adequate to meet the fire protection needs of the Wilmington, San Pedro and Port of Los Angeles areas. A small city with its own fire service would not have immediate access to a variety of specialized resources such as helicopters, hazardous materials squads and urban search and rescue teams such as those that are presently assigned outside the Harbor area but which constitute part of the overall network of fire protection resources in Los Angeles. We do not believe this was taken into consideration in the CFA's assertion that fire service could be downsized. In addition, while mutual aid may provide additional resources for extraordinary incidents, they are not the same as the emergency resources under the immediate command of that city's own fire department. In the past, the City has immediately dispatched hundreds of firefighting and medical resources from throughout the City to the scene of large incidents in the Port. We do not believe that the City's large pool of emergency firefighting and medical resources was taken into account when the CFA made the assertion that fire protection services could somehow be downsized because some other cities with a comparable population (but without a major port) had a smaller fire budget (see Appendix I-24).

The City believes that the CFA failed to deliver a plan for providing police and fire services to the Port of Los Angeles. The City states that the land-based fire department resources serve a dual role by providing services to San Pedro and Wilmington residents and to the Port of Los Angeles. Any cut in fire protection or emergency medical service to one impacts all areas. The City does not believe that the CFA has considered this dual role if the new Harbor city were to scale

back its fire service. The City states:

The CFA fails to set forth a plan for delivery of police and fire service to the Port of Los Angeles. A cut in fire protection or emergency medical service to San Pedro or Wilmington residents would involve a corresponding cut in fire protection provided to the Port of Los Angeles, its tenants and customers. The City of Los Angeles currently provides a wide variety of fire services to the Port of Los Angeles. All land-based resources (fire engines, aerial ladder trucks, rescue ambulances) in Battalion 6 (Wilmington/San Pedro area) perform a dual role. They serve both the citizens of San Pedro and Wilmington and the people and facilities of the Port of Los Angeles. We do not believe that the CFA takes into account this dual role, or the question of how the Port's emergency service needs would be met if the new city were to scale back its fire service.

Neither do we believe that the CFA has taken into account the *Memorandum of Understanding (MOU) for Services Rendered by the City of Los Angeles to the Harbor Department in Support of the Tidelands Trust*, adopted by the Council on June 10, 1997—Harbor Department Agreement No. 1956—which describes the level of fire protection service that is currently provided. The Harbor Department pays a portion of the cost of most of the fire resources in Battalion 6. Although the CFA takes into account the revenues paid by the Harbor Department (see CFA Tables R-5 and R-7), it does not address whether the new City would provide similar services to those provided under the MOU, or would make a different arrangement. If the new city were to cut fire and emergency medical services to solve its revenue/expense gap, the CFA would also have to take into account the corresponding reduction in revenues from the Port to the new city.

#### **State Controller's Office Analysis and Response to City**

**Concern 2:** The State Controller's Office concludes that the effect of a February 21, 2002, supplemental report to the CFA will decrease revenues to the City by up to 67% of property taxes alone and that it can be expected that the gap between revenues and expenditures would increase significantly. This will increase the negative fiscal



viability of the proposed new Harbor city and decrease its potential to maintain current fire protection levels.

Legally, the Harbor Department operates as a trust and the City is the trustee. The Department's property comes from two sources: the original tidelands granted in trust by the State of California and subsequent property purchased in trust from the funds of the Harbor Department. Therefore, the State Lands Commission must approve political boundary and tax jurisdiction changes that impact the original tidelands. In fact, a decision is scheduled on this issue at the State Lands Commission meeting to be held on April 9, 2002.

The CFA made two significant assumptions concerning the management control and tax jurisdiction of the Port of Los Angeles. The CFA assumed that management control would remain with the Harbor Department of the City of Los Angeles. The CFA also assumed that the Port would fall into the political boundary of the new Harbor city and, therefore, its tax base. The financial implications are two-fold.

First, since the City maintains management control, the City would reimburse the new Harbor city for services provided to the Port of Los Angeles. The CFA assumed that the Harbor Department would pay the City \$22.8 million per year for services and the City would pay the new Harbor city \$16.8 million. The payment to the new Harbor city covers \$13.2 million for fire protection and \$3.6 million for non-department-general. The City would retain \$6 million to cover a variety of other services, the largest of which are the City Attorney's Office and the Bureau of Contract Administration. The CFA reports the \$16.8 million as revenue to the new Harbor city rather than as an offset to expenditures. This approach can be viewed as overstating the per capita expenditures in the new Harbor city.

Second, since the new Harbor city acquires tax jurisdiction over the Port of Los Angeles, the CFA assumed that property tax, business tax, and utility users tax would accrue to the new Harbor city. It is not possible to determine the amount of these taxes in the CFA that were related to the port. However, the supplemental report to the CFA made the following statements:

The Comprehensive Fiscal Analysis (CFA) prepared for the Harbor area provides a brief discussion of the general fund revenues attributable to the Port of Los Angeles, stating that these revenues are assumed to transfer to a new Harbor City but that this transfer is

ultimately dependent upon the Port being included within the boundaries of the new city. The CFA did not quantify Port revenues separately from other general fund revenues generated in the Harbor area, as this information is not available from the City of Los Angeles.

In the event the Port was excluded from the boundary of the new city and remained a part of the territory of the City of Los Angeles, a significant amount of revenue that was assumed in the CFA to accrue to the new city would be retained by the City of Los Angeles.

Although detailed revenue data is not available from the City, property tax data is available from the County of Los Angeles and can be used to estimate the amount of property tax revenues collected at the Port. Based on County information, it is estimated that of the \$20.8 million in property tax revenue generated in the Harbor area during fiscal year 1999-00, approximately \$13.9 million, or 67%, is attributable to Port-controlled property....

In addition to property tax revenue, a significant amount of utility users tax revenue would also be lost if the Port were to remain in the territory of the City of Los Angeles. Certain Port tenants are large users of electricity and natural gas and likely accrue a large tax liability relative to other commercial and residential utility users in the Harbor area.

The revenue amounts estimated to be lost are significant, especially as a proportion of the proposed city's property tax (67%) and total revenue (11.5% or more).

***Tidelands Granted in Trust from the State of California:*** Upon admission to the Union, the State of California received title to lands under navigable waters as sovereign lands. These lands are known as public trust lands. The Legislature created the State Lands Commission to manage such lands as these in the best interests of all citizens of the State.

The State Lands Commission must approve political boundary changes that impact the original tidelands. In fact, a decision is scheduled on this issue at the State Lands Commission meeting to

be held on April 9, 2002. This decision will impact the revenue of the new Harbor city and its fiscal viability by determining whether taxes generated on improvements in the original tidelands remain in the shift to the new Harbor city as assumed in the original CFA or stay with the City as assumed in the supplemental report to the CFA.

**Trust Acquired Asset Lands:** The importance of the State Lands Commission with regard to the original tidelands is clear. However, as mentioned above, the Harbor Department has acquired other lands with trust assets. The map of the Los Angeles Harbor and Vicinity (Attachment) shows that the acquired lands (generally outside the red line) are significant in size. The difference is important because LAFCO and not the State Lands Commission has the ability to determine city boundaries as they affect these acquired trust lands. This decision also impacts the revenue of the new Harbor city and its fiscal viability.

The map also shows that the dimensions of the original tidelands (generally the area within the red line) are somewhat vague. For instance, originally the boundaries included references to the “high water mark of the Pacific Ocean,” which has changed over the years. Also, significant landfill and construction have occurred, which has confused the actual boundaries. The Harbor Department has controlled the Port of Los Angeles for some 90 years, and determining what is in the original tidelands areas and what is not will require its assistance.

**Tax Jurisdiction Impacts:** While several different scenarios may occur in regard to tax jurisdiction and, therefore, to the revenues of the proposed city, the two that are outlined in the CFA and the supplement to the CFA are as follows:

CFA: If all properties of the Port of Los Angeles fall within the boundaries of the new Harbor city, the new Harbor city will receive the revenues originally included in the CFA. However, as noted above, these revenues are insufficient to conclude that the proposed city will be fiscally viable.

Supplement to CFA: If the Port of Los Angeles remains within the boundaries of the City, tax revenues will remain with the City. The supplemental report to the CFA states that the new Harbor city would lose up to 67% of property taxes and an undetermined amount of utility users tax.

### City Concern 3

The City believes that the CFA failed to deliver a plan for providing police and fire services to the Port of Los Angeles. The City states that the land-based fire department resources serve a dual role by providing services to San Pedro and Wilmington residents and to the Port of Los Angeles. Any cut in fire protection or emergency medical service to one impacts all areas. The City does not believe that the CFA has considered this dual role if the new Harbor city were to scale back its fire service. The City states:

The CFA fails to set forth a plan for delivery of police and fire service to the Port of Los Angeles. A cut in fire protection or emergency medical service to San Pedro or Wilmington residents would involve a corresponding cut in fire protection provided to the Port of Los Angeles, its tenants and customers. The City of Los Angeles currently provides a wide variety of fire services to the Port of Los Angeles. All land-based resources (fire engines, aerial ladder trucks, rescue ambulances) in Battalion 6 (Wilmington/San Pedro area) perform a dual role. They serve both the citizens of San Pedro and Wilmington and the people and facilities of the Port of Los Angeles. We do not believe that the CFA takes into account this dual role, or the question of how the Port's emergency service needs would be met if the new city were to scale back its fire service.

Neither do we believe that the CFA has taken into account the *Memorandum of Understanding (MOU) for Services Rendered by the City of Los Angeles to the Harbor Department in Support of the Tidelands Trust*, adopted by the Council on June 10, 1997—Harbor Department Agreement No. 1956—which describes the level of fire protection service that is currently provided. The Harbor Department pays a portion of the cost of most of the fire resources in Battalion 6. Although the CFA takes into account the revenues paid by the Harbor Department (see CFA Tables R-5 and R-7), it does not address whether the new City would provide similar services to those provided under the MOU, or would make a different arrangement. If the new city were to cut fire and emergency medical services to solve its revenue/expense gap, the CFA would also have to take

into account the corresponding reduction in revenues from the Port to the new city.

**State Controller's Office Analysis and Response to City**

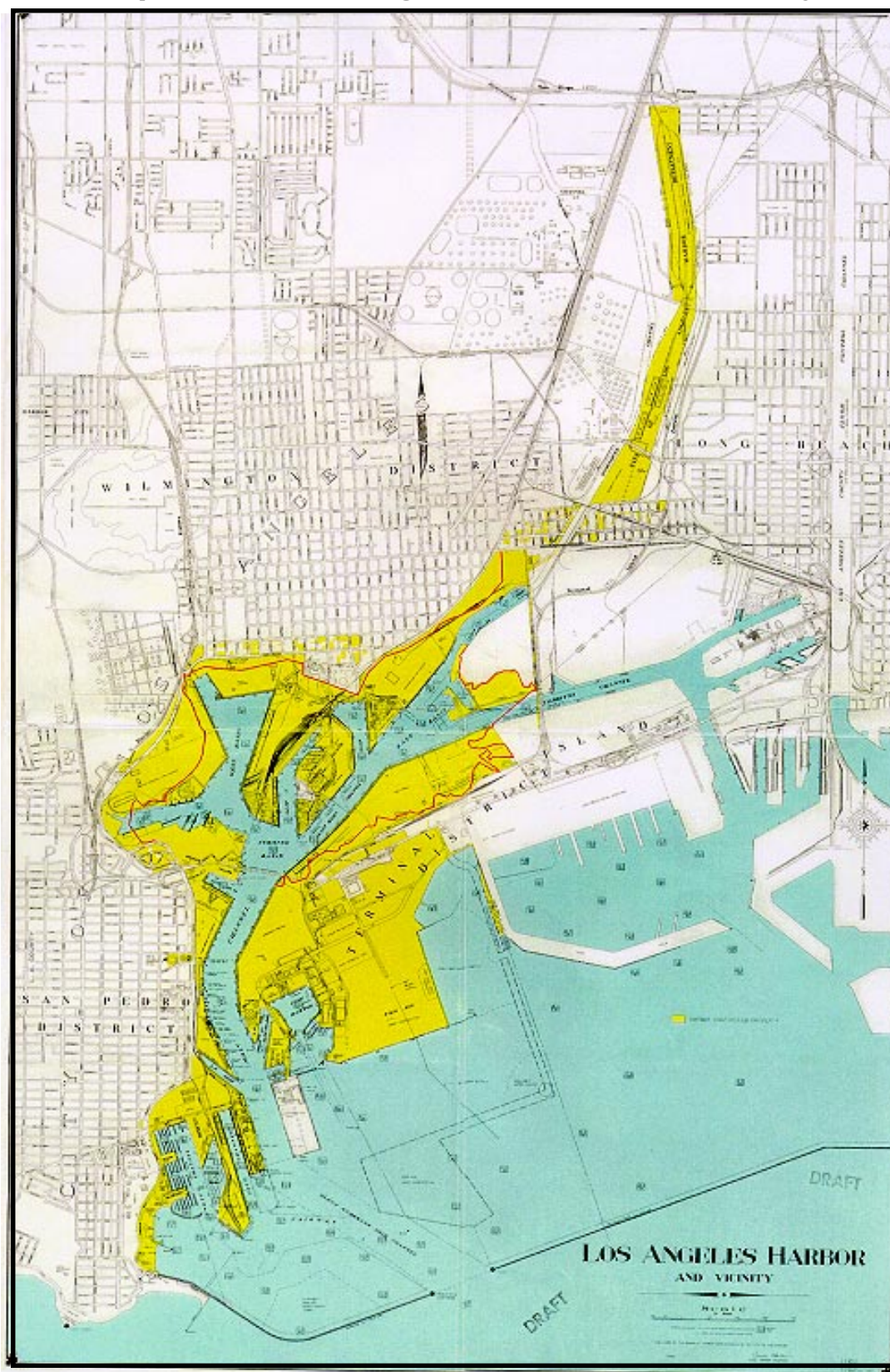
**Concern 3:** The State Controller's Office concludes that the *Government Code* does not require the CFA to include a plan for how services will be delivered to a particular entity. Police and fire services are paid for by the Port of Los Angeles. Since the Port of Los Angeles has its own police force, any change in police services in the new Harbor city would minimally impact the Port. Additionally, the Port of Los Angeles pays for a significant portion of fire services for the area included in the new Harbor city. Thus, there is no incentive to cut fire service costs. While *Government Code* Section 56800 requires the CFA to review the effects on the costs and revenue of affected agencies, it does not require a specific plan for how the services will be provided to a specific entity.

**State Controller's Office Conclusion Regarding City ISSUE 2:**

**The State Controller's Office concludes that revenues listed in the CFA are significantly overstated because of changes made in the supplemental report to the CFA. The overstatement will reduce property tax revenues alone to the new City by up to 67%. This could affect the new Harbor city's potential to maintain current fire and protection services. The State Lands Commission is scheduled on April 9, 2002, to consider a decision on political boundaries and tax jurisdictions proposed for the new Harbor city, which could reduce this impact.**

**In addition, the State Controller's Office concludes that the methodology used to determine costs of fire protection is accurate and reliable.**

**Attachment**  
**Map of the Los Angeles Harbor and Vicinity**





State Controller  
**Kathleen Connell**

[www.sco.ca.gov](http://www.sco.ca.gov)

